

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF THE IMPACT OF THE)
TAX CUTS AND JOB ACT ON THE RATES OF)
ATMOS ENERGY CORPORATION, DELTA)
NATURAL GAS COMPANY, INC., COLUMBIA GAS)
OF KENTUCKY, INC., KENTUCKY-AMERICAN) CASE NO. 2017-00481
WATER COMPANY, AND WATER SERVICE)
CORPORATION OF KENTUCKY)

ORDER

The Commission, on its own motion, initiates this investigation of the impact of the recently enacted Tax Cuts and Jobs Act on the rates of Atmos Energy Corporation (“Atmos”); Delta Natural Gas Company, Inc. (“Delta”); Columbia Gas of Kentucky, Inc., (“Columbia Gas”); Kentucky-American Water Company (“Kentucky-American”); and Water Service Corporation of Kentucky (“WSCK”) (collectively, “Investor Owned Utilities”). The current rates being charged by each of the Investor Owner Utilities were established by the Commission to include recovery of the 35 percent federal corporate tax rate on the equity portion of capital investments. However, under the Tax Cuts and Jobs Act, that tax rate will be reduced to 21 percent as of January 1, 2018. This statutory reduction in the federal corporate tax rate constitutes a *prima facie* case that the utility rates being charged by each of the Investor Owner Utilities will no longer be fair, just, or reasonable as of January 1, 2018, and need to be reduced.

Utility rates must be set at a level to allow a utility to recover all of its reasonable expenses, including taxes, and to provide its shareholders an opportunity to earn a fair

return on invested capital. Since ratepayers are required to pay through their rates the tax expenses of a utility, any reduction in tax rates must be timely passed through to ratepayers. The reduction in the federal corporate tax rate results in both lower tax expense on current income and booked deferred taxes that are in excess of future liability. Since the tax rate reduction is effective January 1, 2018, and the Commission's ratemaking authority is prospective in nature, each of the Investor Owner Utilities should record a deferred liability starting January 1, 2018, to reflect both the reduced federal corporate tax rate expense of 21 percent and the excess deferred accumulated income taxes to be returned to ratepayers over the next 20 years.

While the exact amount of the tax savings and resulting rate reductions cannot be determined with precision at this time, each of the Defendants should use its best estimate to determine the amount to be recorded as a deferred liability, subject to review and adjustment as part of this case. This is the same procedures followed by utilities in Kentucky when they seek approval of deferred assets before the final amounts are known with certainty. The issue to be addressed in this investigation are properly limited to the savings resulting from the January 1, 2018 tax reduction, the appropriate level of deferred liabilities to be recorded on an interim basis to reflect the reduced federal corporate tax rate, and the appropriate level of reductions in utility rates to reflect the reduced federal corporate tax rate.

IT IS THEREFORE ORDERED that:

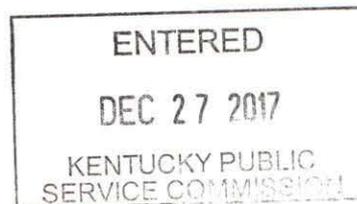
1. This investigation is initiated to review the impact of the reduction of the federal corporate tax rate from 35 percent to 21 percent on the utility rates of Atmos, Delta, Columbia Gas, Kentucky-American, and WSCK.

2. Atmos, Delta, Columbia Gas, Kentucky-American, and WSCK shall commence recording deferred liabilities on their respective books for gas or water service, as applicable, to reflect the reduction in the federal corporate tax rate to 21 percent and the associated savings in excess deferred taxes.

3. Within 30 days of the date of this Order, Atmos, Delta, Columbia Gas, Kentucky-American, and WSCK shall individually file prepared testimony on the impact of the reduction in federal corporate tax rate on their financial operations, utilizing a historical 12-month period, along with copies of the accounting entries made to reflect the deferred liabilities and a schedule of proposed rates to reflect the tax rate reduction.

Should documents of any kind be filed with the Commission in the course of this proceeding, the documents shall also be served on all parties of record. A party filing a paper containing personal information shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

By the Commission



ATTEST:

For 
Executive Director

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